

THE NECESSITY FOR PRIVATE STOCKPILING

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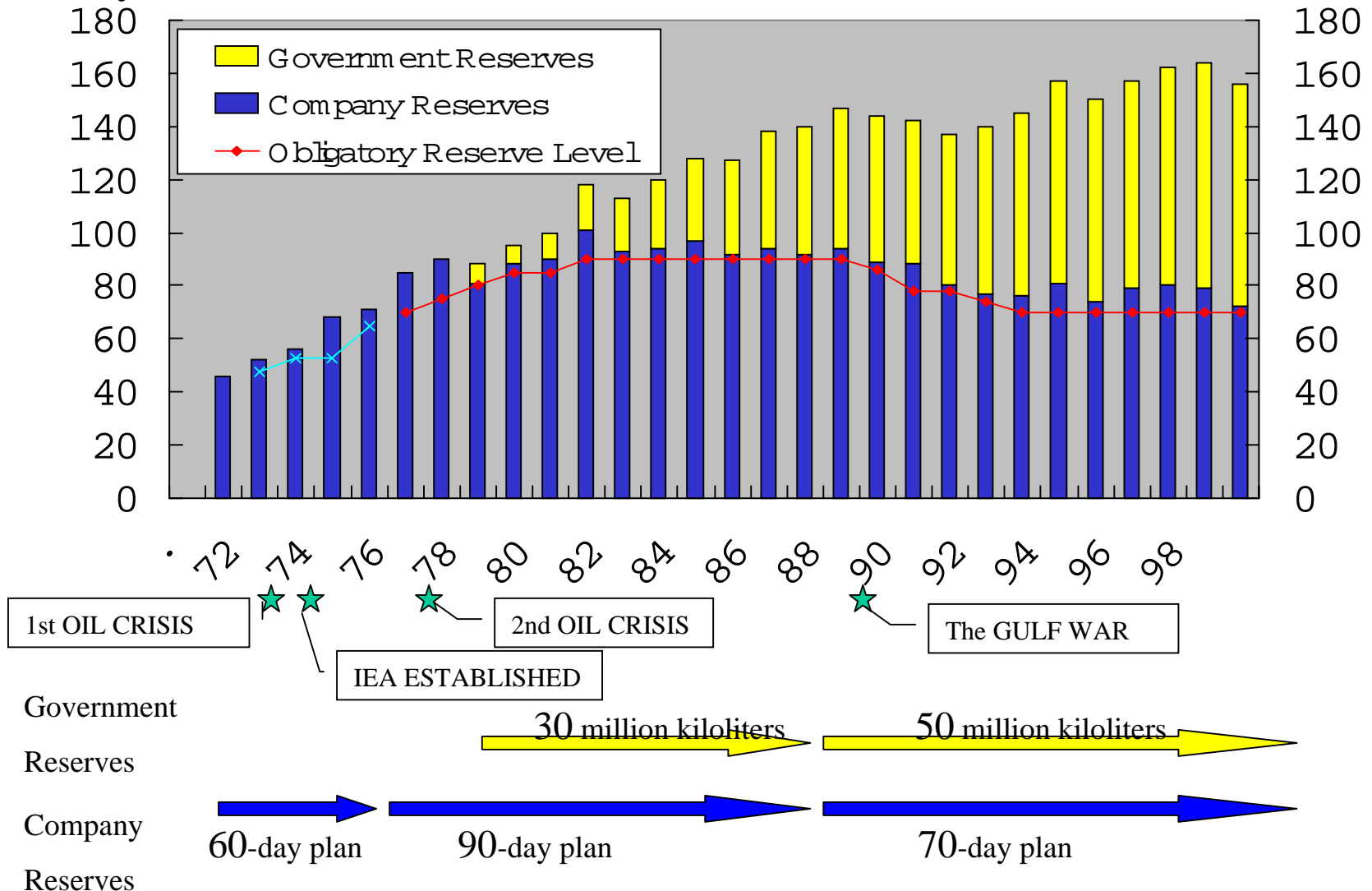
1st Oil Crisis in Japan (1973)



2. (1) Building Up the Stockpiles

(Days)

(graph 1)



Historical Facts

(table 1)

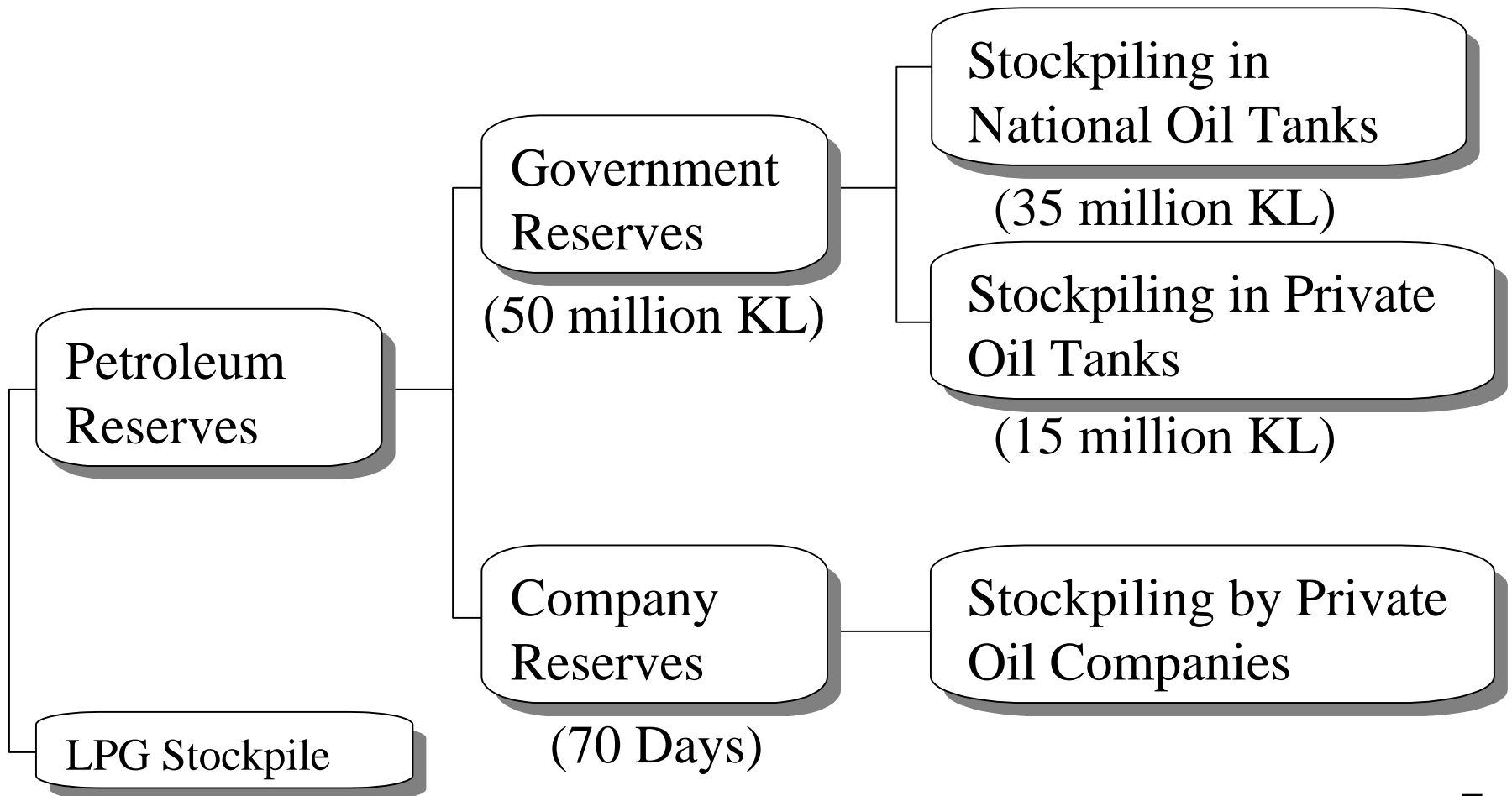
Year	JAPAN	World
1967		<ul style="list-style-type: none"> -3rd Middle East War -OECD recommendation of 60 days of stockpiling
1971		<ul style="list-style-type: none"> -Teheran Agreement -OECD recommendation of 90 days of stockpiling
1972	60 days private stockpiling plan started	
1973	-1 st Oil Crisis “Oil Shock”	<ul style="list-style-type: none"> -4th Middle East War -1st Oil Crisis
1975	<ul style="list-style-type: none"> -60 days private stockpiling achieved -90 days private stockpiling plan started 	

(table 2)

Year	Japan	World
1976	Petroleum Stockpiling Law	
1978	National oil stockpiling began (Floating stockpiles)	Political change in Iran 2 nd Oil Crisis
1981	90 days private stockpiling achieved	
1988	-National oil stockpile reached 30 million KL -Private stockpiling duty reduced by 4 days (Aiming at 70 days in 1993)	
1990		Iraqi invasion to Kuwait The Gulf War
1991		IEA's release of stockpiling (2.5million B/D)
1997	National oil stockpiling reached 50million KL	
1999	Petroleum Council (Emergency Plan)	

2.(2) Stockpiling System in Japan

(chart 1)



2.(3) Features of Private Stockpiling

1. The stockpile uses existing tanks and facilities owned by private companies.

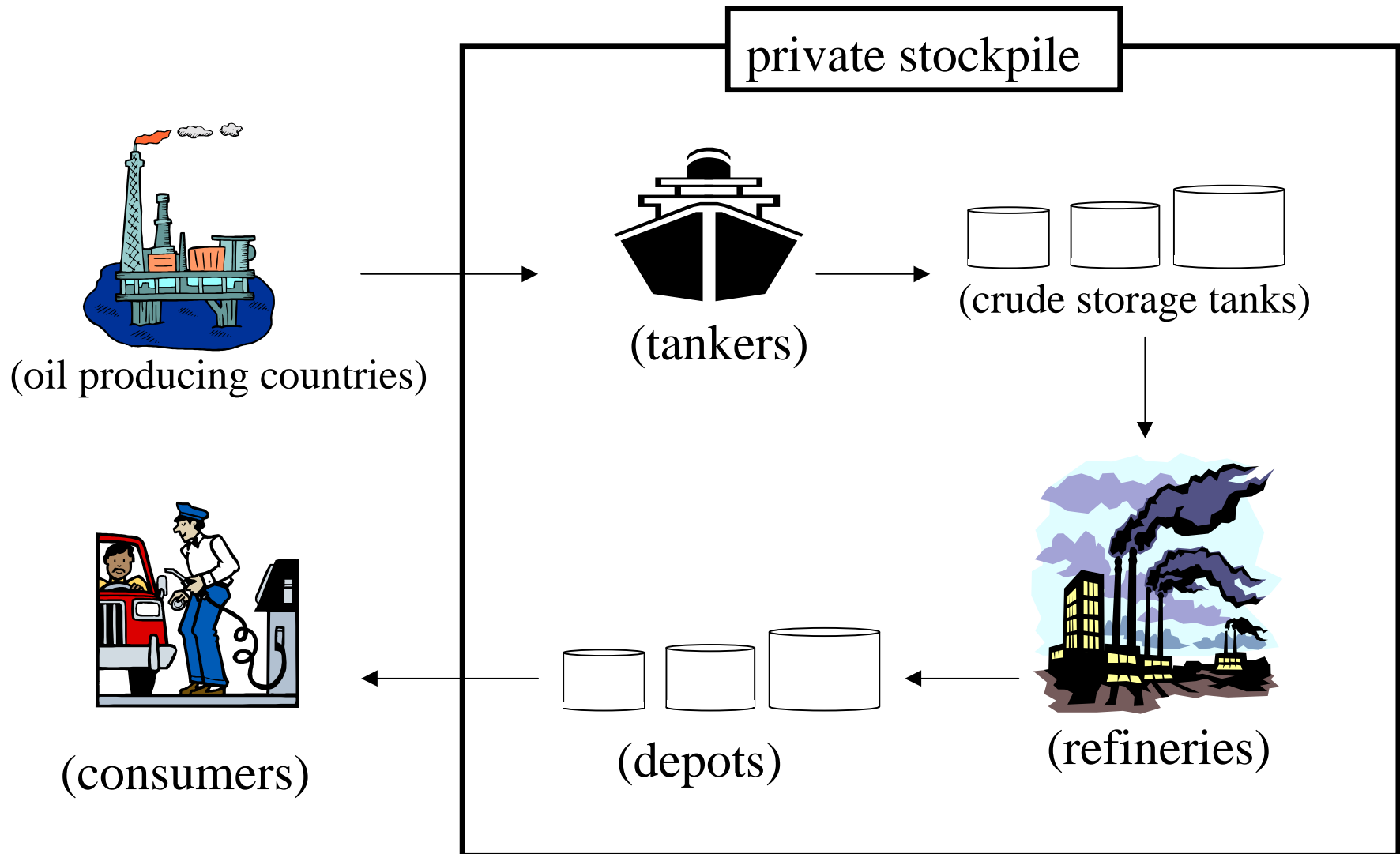
2. The private stockpiling volume counts petroleum in transportation, operation and distribution.

(e.g. national stockpile : only stored in tanks)

3. Private stockpiling carries both crude oil and petroleum products.

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Forms of Private Stockpile



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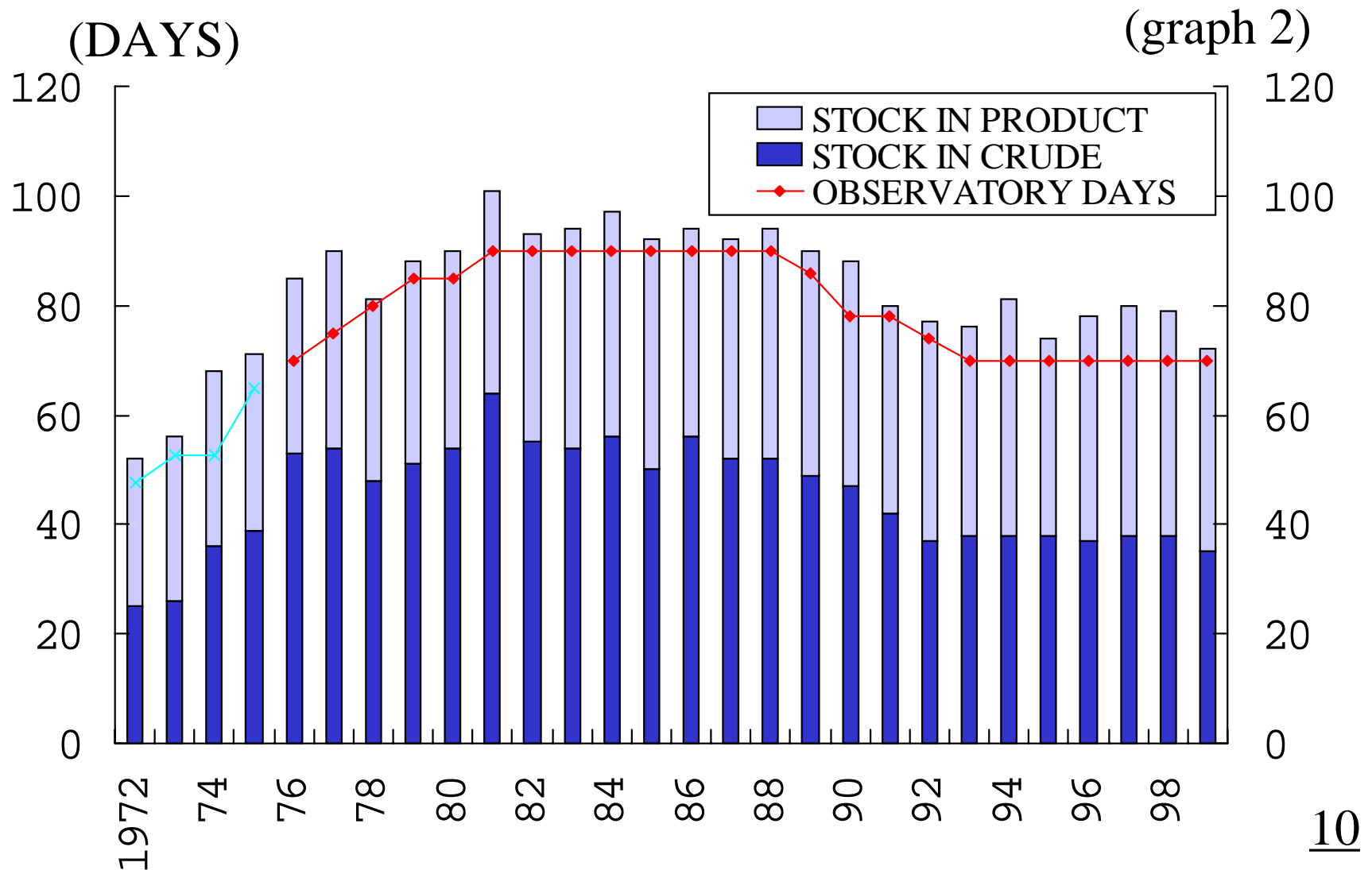
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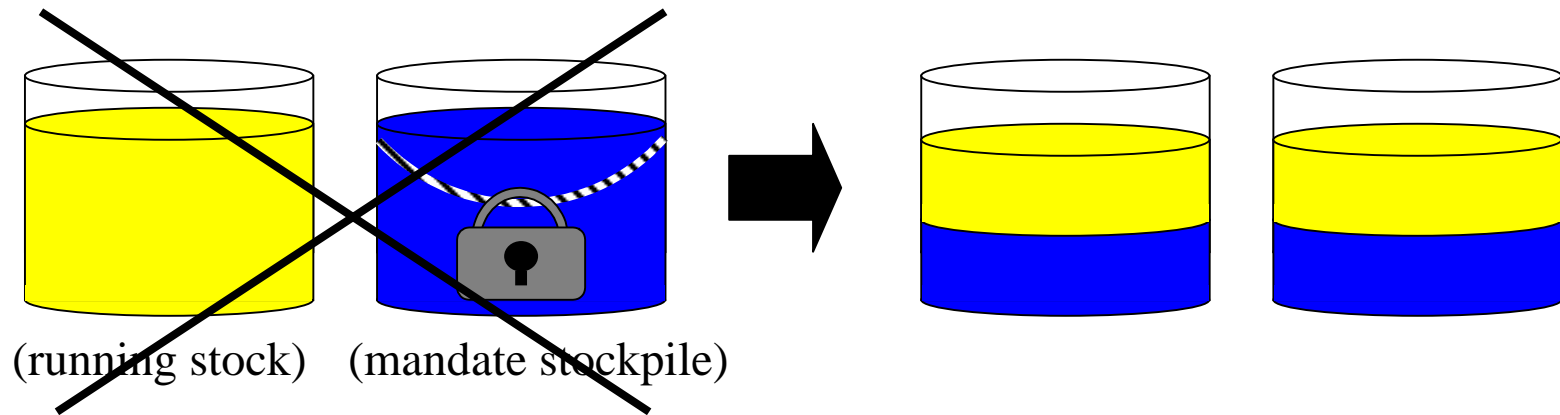
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Building Up the Stockpiles in Japan



2.(3) Features of Private Stockpiling

4. Private stockpiling does not segregate running stock from mandate stockpile.



5. It is mandatory to hold stocks equivalent to 70 days of consumption. The actual volume is based on the actual consumed levels during the preceding 12 months.

70 Day Mandate Stockpiling

<For product importers>

$$\begin{array}{|c|} \hline \text{Volume of products} \\ \text{imported during the} \\ \text{past year } 55/365 \text{ day} \\ \hline \end{array} + \begin{array}{|c|} \hline \text{Volume of products} \\ \text{sold during the past} \\ \text{year } 15/365 \text{ day} \\ \hline \end{array} = \begin{array}{|c|} \hline \text{Mandate} \\ \text{stockpiling quantity} \\ 70/365 \text{ day} \\ \hline \end{array}$$

*Basically same product must be stockpiled.

<For refiners>

$$\begin{array}{|c|} \hline \text{Volume of products} \\ \text{refined during the} \\ \text{past year } 55/365 \text{ day} \\ \hline \end{array} + \begin{array}{|c|} \hline \text{Volume of products} \\ \text{sold during the past} \\ \text{year } 15/365 \text{ day} \\ \hline \end{array} = \begin{array}{|c|} \hline \text{Mandate} \\ \text{stockpiling quantity} \\ 70/365 \text{ day} \\ \hline \end{array}$$

Importers and refiners must report their stock level to METI
(Ministry of Economy, Trade and Industry) twice a month.

2.(4) Past Two Stock Releases in Japan

1st Case in 1979-1980 <Iranian Oil Crisis>

1-8 days of stockpile was permitted to be released.



To stabilize oil supply & demand

2nd Case in 1991 <The Gulf War>

Released 4 days of stockpiling in Japan in line with Coordinated Emergency Response Measures (=“CERM”)



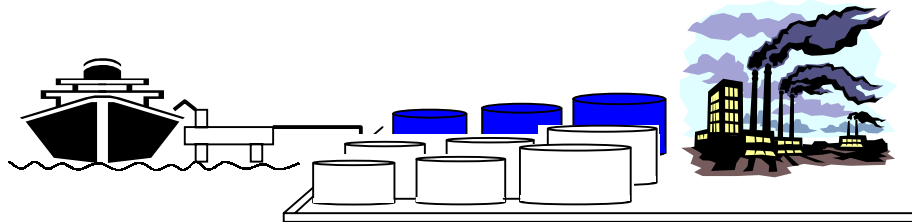
To stabilize crude oil price, supply & demand

2.(5) Governmental Subsidies to Private Sector

- Low interests and long term finance are provided for acquisition of crude oil
80% of the quantity above 45 days (running stock) is financed with low interest by Japan National Oil Company.
- Low interests and long term finance are provided for construction of new crude oil storage tanks
- 50% extra depreciation is applied for new crude oil tanks. • Abolished in 1983

3.(1) Advantages

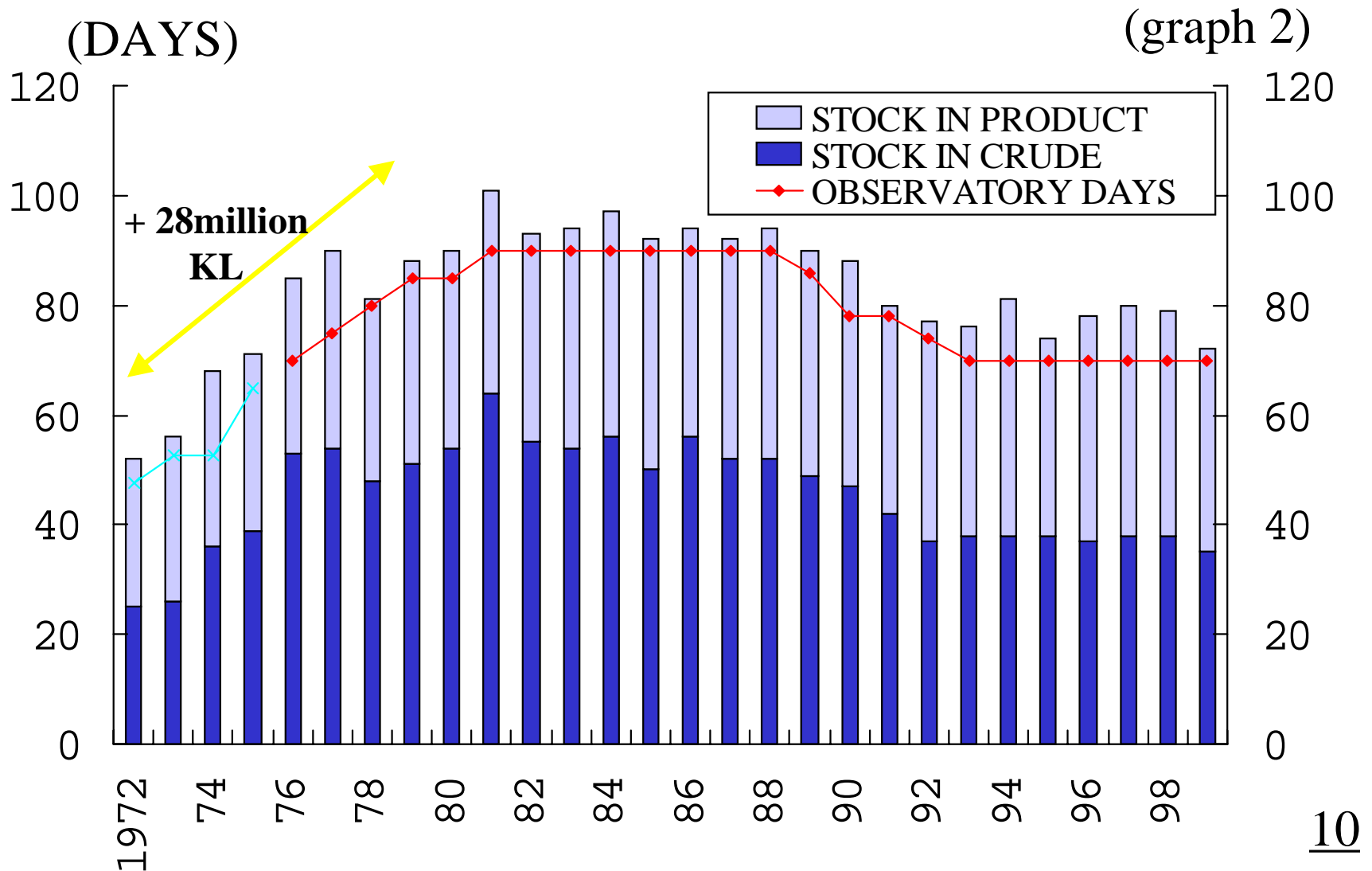
- (a) Less time and less cost to meet the target level
- Stockpiles can be built swiftly by utilizing the existing facilities. Additional facilities can be built economically.



(b) Swift Release

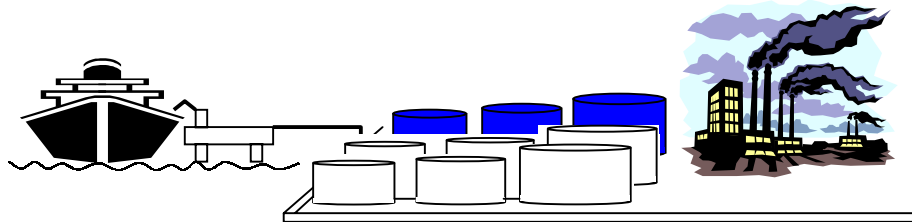
- Stockpiles in distributing process(in refineries and depots) can be released swiftly in case of emergency.
- Refineries and depots are located close to the main consumption areas.

Building Up the Stockpiles in Japan



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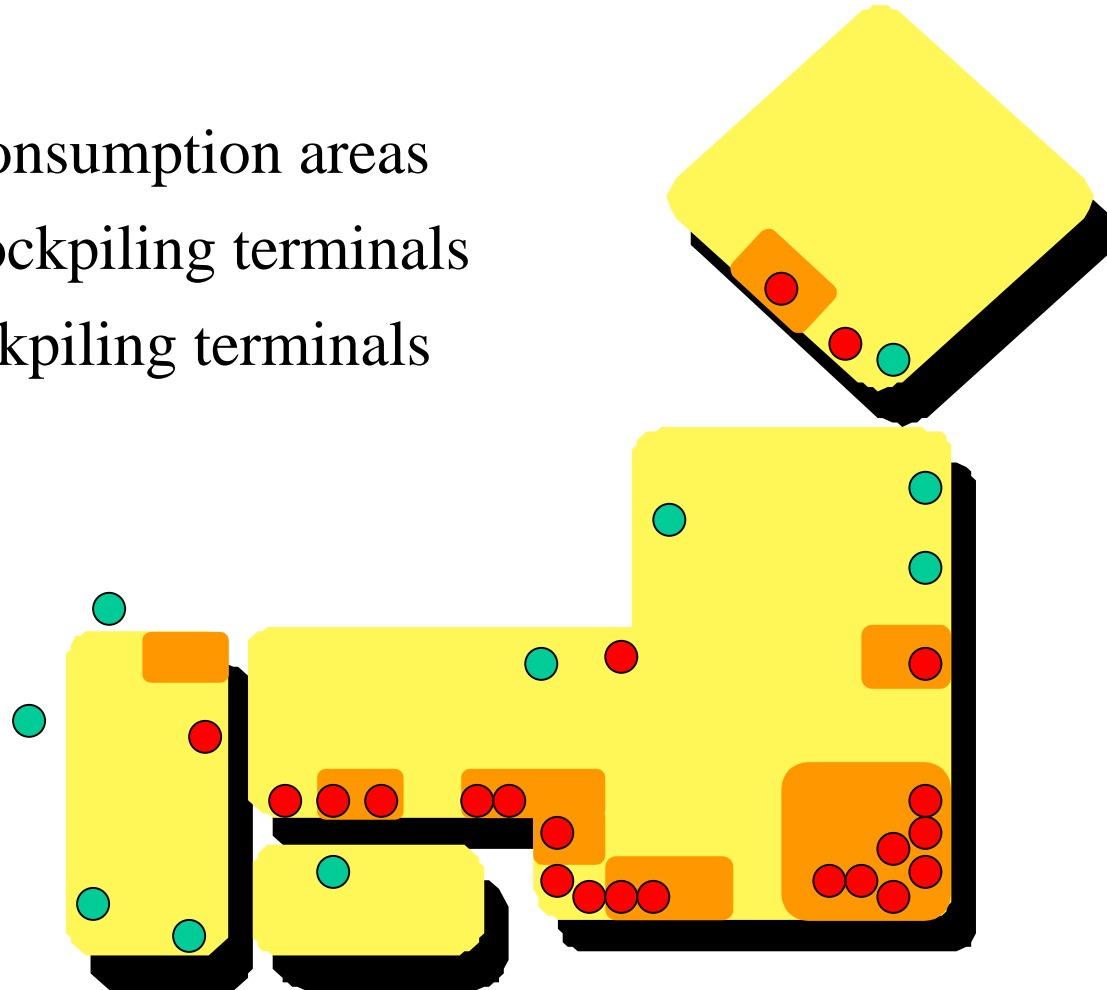


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Stockpiling Locations in Japan

- Major oil consumption areas
- National stockpiling terminals
- Private stockpiling terminals (refineries)



(chart 2)

3.(1) Advantages

(c) Flexible and Rational Release

- Private stockpiling includes petroleum products. --- can meet the immediate demand.

(d) Effect of Cushioning the Market

- Swift release may have cushioning effect against panic reaction in the domestic market in case of emergency.
- • (“The First Aid”)
The government and petroleum companies must inform the public of the stockpile releasing scheme.

3.(2) Disadvantages

(a) Insufficient Amount

- Basically, companies have to keep their running stocks(45 days)•

70 - 45 days ----- swift release can be done

below 45 days----- might have difficulties

(b) Barrier for Newcomers

- Building facilities for stockpiling
 - Large burden for Newcomers
- Government's subsidy is needed

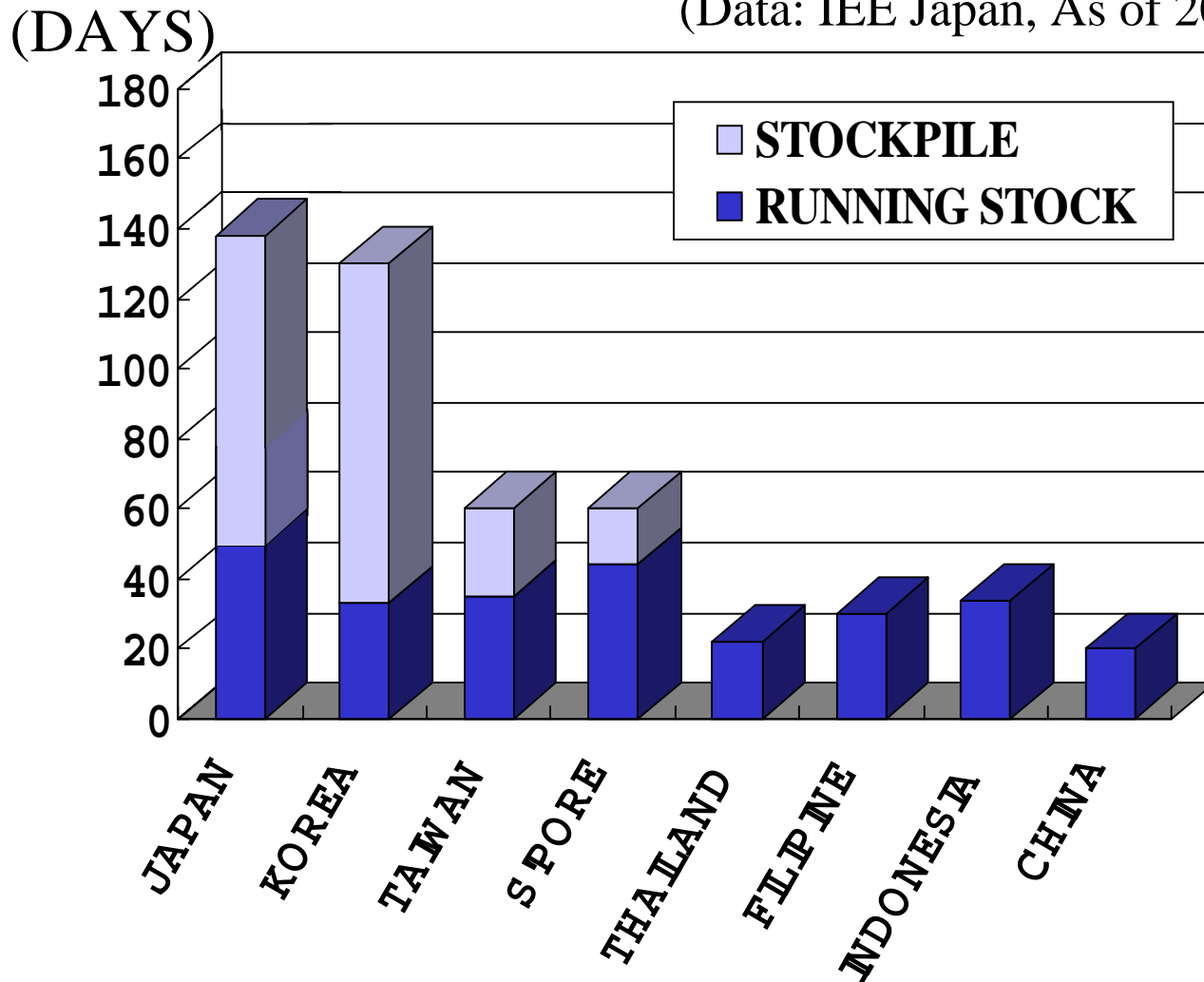
(c) Less Transparent Performance in the Market

- Private stockpile keeps running
 - Hard to see the effect of release in the market
 - Companies need to inform the government of accurate and 18 timely data.

Stockpiles in APEC Countries

(graph 3)

(Data: IEE Japan, As of 2000)



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4. Conclusion

- Strategic stockpile is primarily government matter concerning national security.
- Private stockpile is necessary to obtain swiftness, flexibility and economizing.
- As private oil companies are receiving support from the government, they should take responsibilities to supply and release the stockpile in a swift and flexible way in case of emergency.
- It is necessary for private companies to provide the government with accurate and timely information, especially during emergencies.

4. Conclusion

- The government's understanding of the function of private stockpiling and political support are indispensable to the maintenance of the Stockpiling in the private sector.